

Factsheet

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A guide to Restricted Share Plans

General Features

Employees acquire ownership of the shares at the outset. However, the shares at that time are subject to certain restrictions, which significantly reduce their value.

They may also be forfeit if performance targets are not met or the employee leaves employment. Over time the restrictions fall away so that at the end of a predetermined period the employee holds unrestricted shares which, therefore, have full value.

An alternative structure (which is in effect an LTIP) is for an employee benefit trust to hold the shares against awards under the scheme but subject to forfeiture in certain circumstances, e.g. failure to meet performance targets or leaving employment for a non-specified reason.

A scheme will often be structured in this way to enable it to be used by executives, who will sacrifice part of a cash bonus to acquire shares.

Under such an arrangement the executive would contribute part of his bonus to the trustees who would utilise the funds to purchase shares. The company would then match the executive's contribution to enable the trustees to purchase/subscribe for further shares which, provided various conditions are met, are ultimately released (free of charge) to the executive.

Eligibility

Normally, all employees and full-time directors are potentially eligible. However, participation will be at the discretion of the directors or the remuneration committee and the scheme is often used solely to provide benefits to senior management.

Restrictions

Restrictions could be imposed by a company's articles of association; for example, the shares may have no voting or dividend rights or have restricted rights of transfer. This will not apply to listed companies where the Stock Exchange Listing Rules would normally require shares to be unrestricted.

Listed companies, therefore, will impose restrictions by entering into a contract with the executive who agrees for example, not to transfer his shares, to offer shares for sale on leaving employment (except in certain circumstances), not to exercise voting rights in particular ways in particular circumstances.

Taxation

Immediate Receipt of Shares

The Finance Act 2003 introduces a new system for levying income tax on shares with restricted value. Broadly, upon the lifting of any restriction, income tax (and National Insurance) is paid on the (the value of the shares at that time) x (the percentage by which the restriction reduced value when the shares were acquired). For example, if shares are awarded with restrictions and would be worth £1000 without restrictions, but are worth only £500 with the restrictions, the discount is 50%. If the shares are worth £5000 when the restrictions are lifted, income is due on £2500 - 50% of the £5000.

Alternatively, an employee acquiring restricted shares can - by agreement with the company - elect to pay income tax upfront on any discount caused by restriction, with no further charge if the restrictions are ultimately lifted.

Release of Shares from Trust

Provided the participant does not have any rights to the shares on allocation (e.g. the trustees may forfeit the shares) there should be no income tax at that time. However, the vesting of the shares in the participant (i.e. the removal of the restrictions) will result in an income tax charge based on the market value of the shares at the time they are received by the employee.



Dividends

Dividends would not normally be passed onto the employee until the employee holds unrestricted shares, which have full value.

Benefits Associated in Operating a Restricted Share Scheme

Employer:

A Restricted Share Scheme is flexible and should be designed to meet the needs of the company and its employees. Any financial benefit ultimately enjoyed by an employee is now deductible by the company against corporation tax.

Employees:

As opposed to a CSOP or Unapproved Share Option the executive benefits from the full value of the shares, not merely the growth in value of over the option period.